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Report Highlights:
MY 2009/10 fluid milk production is forecast to reach 108 million tons from a forecast of 105 million tons in MY 2008/09. Strong farm-gate prices along with rising domestic demand for a variety of milk products, supported by growth of the Indian economy, are the primary factors driving increased production. The Government of India's sanitary conditions governing the import of dairy products effectively prohibit dairy imports from the United States.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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MARKET OVERVIEW

PRODUCTION

Post forecasts fluid milk production in MY 2009/10 to increase by 2.8 percent to 108 million tons compared to MY 2008/09 milk production of 105 million tons. The milk production estimate for MY 2007/08[1] has been revised higher to 102 million tons based on the latest Government of India (GOI) estimates. Strong farm-gate prices and rising domestic demand for a variety of milk products, supported by growing disposable income of India's sizable middle class population are factors driving increased milk production. The states of Punjab, Karnataka, Gujarat and Andhra Pradesh are giving special emphasis to cross-breed cow development programs and as a result the average milk productivity rate in those states is improving. Furthermore, average performance rates of cross-bred animals (mostly local breeds with Holstein Friesian) in the state of Punjab are quite encouraging (up to 40-55 liters per dairy animal per day). However, the productivity levels of most indigenous cow breeds are very low.

Post forecasts NFDM powder production in MY 2009/10 to increase by seven percent to 370,000 tons primarily due to increased demand for reconstituted milk during the lean production season. Furthermore, MY 2009/10 butter production is forecast up by ten percent at 4.06 million tons because of growing domestic demand and the greater purchasing power of the average Indian consumer. The change in work culture (a growing number of women in the workforce) and demographics (smaller families and cosmopolitan culture) in the urban areas are driving the growth of many processed dairy products like milk powder, cheese, butter, yogurt, flavored milk, ice-creams, cottage cheese (Indian paneer), dairy whitener, ethnic milk sweets, etc. Cheese production in India is estimated to be about 26,000 tons and is growing at a rate of 8 to 10 percent per year. Cottage cheese (paneer) is considered as a delicacy among the majority of Indian consumers. However, cottage cheese is largely manufactured by the unorganized sector and many households also produce fresh cottage cheese for their own consumption.

India is the world's largest producer of bovine milk. Buffaloes contribute around 57 percent to total milk production and are increasingly preferred as dairy animals over cows. Buffaloes can be used for milk production, meat, and also as a work animal for small farmers. Additionally, buffalo milk has a higher fat content than cow's milk resulting in higher prices per litre. Dairy production is an important direct and supplementary source of income for around 70 million small farmers and landless laborers (17 percent of which are grouped into milk marketing cooperatives at the village level). More than 90 percent of India's milk production is sourced from 14 states (with the top five states being Uttar Pradesh, Punjab, Rajasthan, Andhra Pradesh and Maharashtra) accounting for 80 percent of the country's villages.

[1] The fluid milk production estimate is based on the provisional data released by the GOI. However, the final estimates for milk production are still not published. The revised figure for MY 2007/08 show six percent growth over MY 2006/07. However, the historical year-to-year growth rates for fluid milk production are in the range of around 3-4 percent. Therefore, Post may revise production estimates after the final GOI statistics are received.

Industry sources confirm that a milk producer retains around 34 percent of farm milk production and the rest, 66 percent, is sold. Out of this 66 percent of milk sold by producers, around 16 percent is procured by cooperatives and the remaining 50 percent is procured by the unorganized sector. Various state cooperatives have well established milk brands and market milk in a standardized package design (blue for toned with three percent fat and 8.5 percent SNF, orange for full-cream with six percent fat and nine percent SNF, yellow for double-toned with 1.5 percent fat and nine percent SNF, and purple for skimmed milk with not more than 0.5 percent fat and 8.7 percent SNF). These package colors remain common for all dairy cooperatives and are characterized on the basis of different fat and solids-not-fats (SNF) percentages as prescribed by the Prevention of Food Adulteration Act. Several organized players like the Gujarat Cooperative Milk and Marketing Federation (GCMMF), Mother Dairy, Britannia, Nestle and other state cooperatives and private companies produce many processed milk products under the popular brands of Amul, Mother Dairy, Verka, Vita, Britannia, Nestle, etc.

PRODUCTION DEVELOPMENTS AND POLICY

Despite substantial milk production growth, the Indian dairy sector still needs to overcome challenges like low productivity of dairy animals, lack of effective quality and hygiene control systems, and an enhanced network of cold chain infrastructure from the production area to the consumer. Around 70-75 percent of the indigenous cattle and buffalo population cannot be categorized under any well-defined breed or are non-descript and their milk yield levels are much lower than that of pure dairy breeds available in India. Additionally, the productivity level of most defined indigenous breeds in India is less than 1,000 kgs per head. Please see IN8098 for additional data on comparative milk productivity levels of dairy animals among the major milk producing nations of the world. The Ministry of Agriculture has developed a new import protocol for bovine germplasm, but various conditions specified under this protocol will significantly raise the cost of imported semen. Therefore, many low-income producers will not have an access to quality imported semen, which could benefit their herd health and production.

The GOI's Milk and Milk Products Order (http://www.dahd.nic.in/order/mmpo.doc) / MMPO released in the year 1992, regulates the marketing and processing of milk and milk products. According to the MMPO, any person or dairy plant handling more than 10,000 liters of milk or 500 MT of milk solids per year needs to be registered with the registering authority designated by the central government. The MMPO is aimed at ensuring the maintenance and supply of liquid milk and specifies the rules for production, processing and distribution of milk and milk products. The GOI has designated the National Productivity Council (NPC) and the Export Inspection council (EIC) as quality auditors for conducting periodic inspection of units registered under the MMPO to ensure compliance with sanitary, hygienic and food safety measures.

Additionally, the Ministry of Health and Family Welfare (MOHFW) regulates both domestic production and importation of milk and milk products, through the standards laid out in the Prevention of Food Adulteration Act and Rules (http://mohfw.nic.in/pfa%20acts%20and%20rules.pdf).

CONSUMPTION

Total consumption of fluid milk in MY 2009/10 is forecast to increase by around 2.9 percent to 107 million tons due to the growing population, higher demand for value-added milk products and the increasing purchasing power of a significant section of the consuming class. India is not only the world's largest producer of milk but also one of the largest consumers. Milk and milk products are a significant part of the daily diets (particularly for the vegetarian

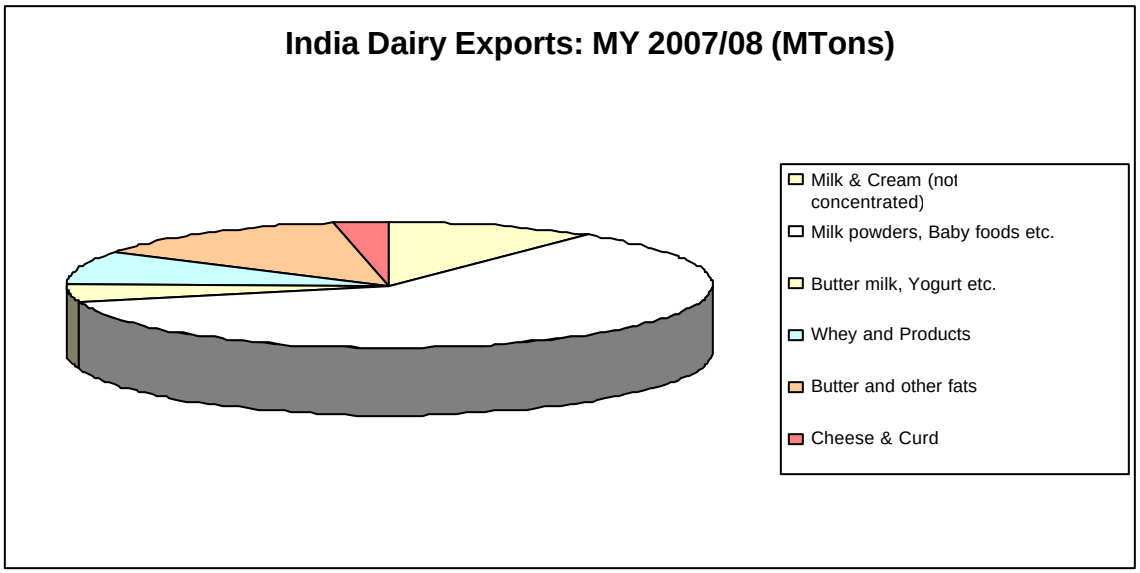
population). The per capita consumption of milk during 2007/08 is estimated to be around 250 grams per day, still below the world's average of 265 grams per day indicating scope for further increases in per capita consumption.

The unorganized sector processes approximately five times as much milk for value added milk products as does the organized sector. The share of the unorganized dairy sector in milk processing is substantial because they are able to operate without large initial investments and their daily milk procurement and sales operations are small in scale. Additionally, many consumers in India prefer to buy fresh milk and milk products. This preference for fresh products favors increased purchase of processed dairy products like fresh cheese, yogurt etc. from the unorganized players, who sell whatever they produce on a daily basis due to lack of sufficient cold storage. Also, the products handled by the unorganized sector are not covered under government regulations of quality assurance, taxation, etc. Nevertheless, with rising incomes and improving lifestyles, the demand for branded dairy products has started gaining momentum and these products are viewed as a symbol of quality. Furthermore, more and more consumers are increasingly becoming health conscious and prefer to buy hygienically packed milk and milk products. Consumption of processed cheese (mozzarella, cheddar, gouda etc.) is mainly driven by a western style food culture and restaurants. Introduction of various probiotic dairy products (flavored milk and yogurt) is another recent development in the changing consumption patterns, driven by consumer health preferences.

The entry of various renowned Indian business players in organized food retail is also expected to boost demand for branded dairy products. Big Indian dairy brands like Amul have already started expansion work on their exclusive sales outlets (in many states of India) in order to gain direct sale margins and to offer better services to their customers. Various state dairy cooperatives have also developed popular dairy brand and some of these brands have a multi-state presence or even national availability (like Amul). Another Indian conglomerate 'Reliance Industries Limited' has ventured into the dairy business recently in the state of Punjab with a project in the pilot stage.

TRADE

Exports of non-fat dry milk (NFDM) for MY 2009/10 is forecast by post at the same level of the current year (MY 2008/09) at 38,000 tons, assuming strong domestic demand. The MY 2007/08 export figure for NFDM is revised down to 40 tons to reflect data published by the Ministry of Commerce, GOI.



Data Source: Directorate General of Commercial Intelligence & Statistics (DGCIS), Ministry of Commerce and Industry

India was a net exporter of dairy products during MY 2007/08, with the value of exports equating to USD 215.3 million and 69,415 tons in volume terms. India exported various categories of milk products (mainly skimmed milk powder, other milk powder, melted butter). Milk powder and baby food exports constituted around 60 percent of the total dairy exports in value terms, followed by melted butter (ghee), milk cream, and other processed dairy products. Fluid milk exports for MY 2009/10 are forecast at the same level as this year (MY 2008/09) at 5,000 tons due to strong domestic demand. India exported more than 40 percent of its total dairy product shipments to Egypt, U.A.E. and Bangladesh during 2006/07.

Data Source: Agricultural and Processed Food Products Export Development Authority (APEDA), Ministry of Commerce and Industry, GOI

The import[2] of dairy products by the United States from India during 2007/08 declined by around 30 percent to 14,945 tons compared to 21,394 tons in 2006/07. The decline was 34 percent in value terms from USD 71.74 million in 2006/07 to USD 47.05 million in 2007/08. The U.S. dairy product import figures mentioned above includes casein (HS Code 3501105000) and the import of casein from India equated around 69 percent and 77 percent of total dairy imports from India (in value terms) during 2007/08 and 2006/07 respectively. India's dairy product trade balance with the United States is asymmetrical as imports of dairy products from the United Stated are effectively prohibited. The United States cannot export dairy products to India because the dairy sanitary import protocol is overly restrictive.

TRADE POLICY

Imports of milk and cream, infant formula, whole milk, condensed milk, yogurt, buttermilk, whey, dairy spreads, ghee, cheese (fresh/grated, powdered, processed, blue veined) are permitted without any quantitative restrictions. However, in most cases import permits are required. The detailed procedures for obtaining a sanitary permit are discussed in GAIN Report IN7094, dated Oct 1, 2007. Skimmed milk, infant formula, whole milk, milk for babies, and condensed milk should also adhere to standards set by the Bureau of Indian Standards. While current GOI sanitary conditions effectively block imports of dairy products from the U.S. and many other countries, however, if this issue is resolved, there is potential to export U.S. dairy products to India. The demand for processed cheese and various high quality dairy products (butter, dairy spread, etc) by luxury hotels, retail stores and fast-food chains is expected to grow in India, which should provide an opportunity for U.S. exporters. The expanding health food segment and functional needs of the baking industry should provide increased export opportunities for intermediate dairy products (whey and milk powders etc).

The Ministry of Health and Family Welfare (MOHFW) regulates both domestic production and importation of milk and milk products, through the standards laid out in the Prevention of Food Adulteration Act and Rules (http://mohfw.nic.in/pfa%20acts%20and%20rules.pdf). However, with the introduction of a new Food Safety and Standards Act in 2006 (http://mofpi.nic.in/fsnstds.pdf), a consolidated food law is expected to be implemented. The main objective of this legislation is to bring about a single statute relating to food safety in place of the existing multiplicity of food laws and to establish a Food Safety and Standards Authority [Food Authority] with a view to: a) lay down food standards, b) effectively regulate the manufacture, import, storage, distribution and sale of food to ensure consumer safety and promote global trade, c) pool infrastructure, manpower, testing facilities, and d) rationalize and strengthen the existing enforcement mechanism. The administrative control of this Authority will be with the Ministry of Health and Family Welfare. The implementation of the Act is in progress although it is not yet clear exactly when it would come into force. The GOI appointed the Chairperson and the Chief Executive Officer of the Authority in mid-2008. Once the new Food Safety Act comes into effect, the following food laws would be rescinded: Prevention of Food Adulteration Act, Milk and Milks Products Order, Fruit Products Order, Meat Products Order, etc. The full text of the legislation is available at: www.mohfw.nic.in/Food%20Safety%20Standard%20Act.pdf. For additional details on the Food Safety Standards Act (FSSA), 2006, please refer to IN7033.

The Ministry of Commerce released a notification on September 24, 2008 (46/ (RE-2008)/2004-2009) to prohibit the import of dairy products (including milk and milk products) from China for three months. The import ban was based on the recommendation of the Food

[2] As per the data sourced from the Department of Commerce, U.S. Census Bureau

Safety and Standards Authority (FSSA) and was taken as a precautionary measure after the findings of melamine adulteration in the Chinese milk powder.

High international prices led to increased exports of specific Indian milk products in MY 2005/06 and MY 2006/07. However, the Government of India imposed an export ban on certain milk and milk products including milk powder in February 2007 to control increasing milk powder prices in India. The export ban continued until September 30, 2007, primarily to cover the lean milk production season (April to August). The export ban decision was strongly opposed by the leading dairy cooperatives and other private exporters, as the ban did not allow them to meet their trade commitments and further reap profits when international prices were lucrative for exports.

Furthermore, even after the lifting of the export ban, the GOI continued efforts to control rising food inflation in the domestic market. Therefore, the Ministry of Commerce issued a notification on April 24, 2008, wherein specific milk and milk products were no longer entitled to benefits under an export subsidy scheme[3] 'Focus Market Scheme/FMS' (DGFT Notification No 6(RE-2008), which can be accessed at http://dgft.delhi.nic.in/). This export subsidy scheme is not specific to dairy products. The decision was deliberately imposed as India exports most of its milk and milk products to African and CIS countries, thus availing the duty benefits under the FMS. Only milk/milk products were pulled out of the FMS back in April 2008. The dairy industry is against the subsidy withdrawal of this scheme as such a measure will cause trade disruptions and will affect their export competitiveness especially in price-sensitive international markets.

[3] The export subsidy covers exports of all goods to focus market countries (Latin America, Africa and CIS etc.). The objective of the scheme is to offset high freight costs and other externalities to select international markets with a view to enhance export competitiveness in these countries. Exporters of all products to these notified countries are entitled to payment of the duty credit scrip equivalent of 2.5 percent of the FOB value of exports. Indian importers can avail the duty drawback on imports equivalent to the value of duty credit scrip.

Annexure I: Tariff Structure for various dairy products

HS CODE	ITEM DESCRIPTION	BASIC	CVD	SPL CVD	TOTAL DUTY WITH 2+1% EC	IMPORT POLICY
04011000 - 04013000	Milk and cream, not concentrated nor containing added sugar or other sweetening matter	30	0	0	30.9	Free SanP[1/]
04021010	Milk and cream, concentrated or containing added sugar or other sweetening matter	60	0*	4	68.272	Free SanP[1/]
04021020 – 04021090, 04022100	Milk and cream, concentrated or containing added sugar or other sweetening matter	60	0	4	68.272	Free SanP[1/]
04022910- 04022990	whole milk, milk for babies, other	30	0	4	36.136	Free SanP[1/]
04029110	Condensed milk	30	14.4	4	58.863	Free SanP[1/]
04029190	Other	30	0	4	36.136	Free SanP[1/]
04029910- 04029990	whole milk, condensed milk, other	30	0	4	36.136	Free SanP[1/]
0403	Buttermilk, curdled milk and cream, yogurt, kephir & other fermented or acidified milk & cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruits, nuts or coco	30	0	0	30.9	Free SanP[1/]
0404	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or include	30	0	4	36.136	Free SanP[1/]
0405**	Butter and other fats and oils derived from milk; dairy spreads	40	0	4	46.848	Free SanP[1/]
0406 1000	Fresh (unripened or uncured) cheese, including whey cheese & curd	30	0	0	30.9	Free SanP[1/]
04062000	Grated or powdered cheese of all kinds	30	0	4	36.136	Free SanP[1/]
04063000	Processed cheese not grated or powdered	30	0	4	36.136	Free SanP[1/]
04064000	Blue-veined cheese and other cheese containing veins produced by Pencillium roqueforti	30	0	4	36.136	Free SanP[1/]
04069000	Other cheese	40	0	4	46.848	Free SanP[1/]
	All goods falling under subheading 0406.90 00	30	0	4	36.136	

* - Education Cess of 2% on customs exempted on 0402 10, 0402 2100, 0405 1000 & 0405 90

** - Education Cess of 2% exempted on dairy spread with a milk fat content at least 75% but less than 80% by weight, falling under tariff item 0405 20 00

1/ - Sanitary Permit, CVD – Countervailing Duty, EC – Education Cess

SECTION II: STATISTICAL TABLES

Table 1: Commodity, Dairy, Milk, Fluid, PSD

Dairy, Milk, Fluid India	2007			2008			2009			
	2007			2008			2009			
	Market Year Begin: Apr 2007			Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Cows In Milk	38000	38000	38000	38500	38500	38500			38500	(1000 HEAD)
Cows Milk Production	42140	42140	42890	42890	42890	44100			45140	(1000 MT)
Other Milk Production	56960	56960	59210	59210	59210	60900			62860	(1000 MT)
Total Production	99100	99100	102100	102100	102100	105000			108000	(1000 MT)
Other Imports	0	0	0	0	0	0			0	(1000 MT)
Total Imports	0	0	0	0	0	0			0	(1000 MT)
Total Supply	99100	99100	102100	102100	102100	105000			108000	(1000 MT)
Other Exports	0	0	0	0	0	0			0	(1000 MT)
Total Exports	5	5	8	5	5	5			5	(1000 MT)
Fluid Use Dom. Consum.	41130	41130	42680	42680	42680	43885			45035	(1000 MT)
Factory Use Consum.	57965	57965	59412	59415	59415	61110			62960	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0			0	(1000 MT)
Total Dom. Consumption	99095	99095	102092	102095	102095	104995			107995	(1000 MT)
Total Distribution	99100	99100	102100	102100	102100	105000			108000	(1000 MT)

Table 2: Commodity, Dairy, Milk, Nonfat Dry, PSD

Dairy, Milk, Nonfat Dry India	2007			2008			2009			
	2007			2008			2009			
	Market Year Begin: Apr 2007			Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Beginning Stocks	5	5	5	15	15	15			15	(1000 MT)
Production	320	320	320	345	345	345			370	(1000 MT)
Other Imports	0	0	0	0	0	0			0	(1000 MT)
Total Imports	0	0	0	0	0	0			0	(1000 MT)
Total Supply	325	325	325	360	360	360			385	(1000 MT)
Other Exports	60	60	40	60	60	38			38	(1000 MT)
Total Exports	60	60	40	60	60	38			38	(1000 MT)
Human Dom. Consumption	250	250	270	285	285	307			337	(1000 MT)
Other Use, Losses	0	0	0	0	0	0			0	(1000 MT)
Total Dom. Consumption	250	250	270	285	285	307			337	(1000 MT)
Total Use	310	310	310	345	345	345			375	(1000 MT)
Ending Stocks	15	15	15	15	15	15			10	(1000 MT)
Total Distribution	325	325	325	360	360	360			385	(1000 MT)

Table 3: Commodity, Dairy, Butter, PSD

Dairy, Butter India	2007			2008			2009			
	2007			2008			2009			
	Market Year Begin: Apr 2007			Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Beginning Stocks	0	0	0	0	0	0			0	(1000 MT)
Production	3360	3360	3360	3610	3610	3695			4065	(1000 MT)
Other Imports	10	10	10	15	15	0			5	(1000 MT)
Total Imports	10	10	10	15	15	0			5	(1000 MT)
Total Supply	3370	3370	3370	3625	3625	3695			4070	(1000 MT)
Other Exports	10	10	10	10	10	8			8	(1000 MT)
Total Exports	10	10	10	10	10	8			8	(1000 MT)
Domestic Consumption	3360	3360	3360	3615	3615	3687			4062	(1000 MT)
Total Use	3370	3370	3370	3625	3625	3695			4070	(1000 MT)
Ending Stocks	0	0	0	0	0	0			0	(1000 MT)
Total Distribution	3370	3370	3370	3625	3625	3695			4070	(1000 MT)